SaskTel

Financial Statements of

SASKATCHEWAN TELECOMMUNICATIONS

December 31, 2004

105-04359/

KPMG LLP
Chartered Accountants
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AUDITORS' REPORT

To the Members of the Legislative Assembly, Province of Saskatchewan

We have audited the statement of financial position of Saskatchewan Telecommunications as at December 31, 2004 and the statements of operations, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Regina, Canada
February 23, 2005

Statement of Operations

For the year ended December 31, (Thousands of dollars)	2004	2003 Restated (Note 3)
Operating revenues	**$803,897**	$771,271
Operating expenses		
Operating expenses	**529,014**	523,495
Depreciation and amortization	**131,645**	139,149
Restructuring charges (Note 4)	**38,235**	-
	698,894	662,644
Income from operations	**105,003**	108,627
Other income	**1,814**	2,774
Interest and related costs (Note 5)	**(22,651)**	(3,137)
Net income	**$84,166**	$108,264

See Accompanying Notes

Statement of Retained Earnings

For the year ended December 31, (Thousands of dollars)	2004	2003 Restated (Note 3)
Retained earnings, as previously reported	**$263,767**	$252,815
Prior period adjustment (Note 3)	**(2,053)**	(790)
Opening retained earnings, restated	**261,714**	252,025
Net income	**84,166**	108,264
	345,880	360,289
Dividends	**120,749**	98,575
Retained earnings, end of year	**$225,131**	$261,714

See Accompanying Notes

Saskatchewan Telecommunications

Statement of Financial Position

As at December 31, (Thousands of dollars)	2004	2003 Restated (Note 3)
Assets		
Current assets		
Cash and short-term investments (Note 6)	**$30,789**	$13,751
Accounts receivable	**41,004**	76,920
Inventories	**5,698**	3,208
Prepaid expenses	**2,567**	3,645
	80,058	97,524
Property, plant and equipment (Note 7)	**802,493**	818,544
Other assets (Note 8)	**67,398**	57,712
	$949,949	$973,780
Liabilities and Province's equity		
Current liabilities		
Bank indebtedness	**$8,388**	$7,345
Accounts payable and accrued liabilities	**124,510**	81,489
Accrued interest	**3,955**	5,489
Dividend payable	**32,567**	35,112
Services billed in advance	**24,975**	23,869
Current portion of long-term debt (Note 9)	**2,272**	31,552
	196,667	184,856
Deferred revenue	**6,346**	-
Long-term debt (Note 9)	**254,610**	260,015
	457,623	444,871
Province of Saskatchewan's equity		
Equity advance (Note 10)	**267,195**	267,195
Retained earnings	**225,131**	261,714
	492,326	528,909
	$949,949	$973,780

See Accompanying Note

On behalf of the Board

Robert Watson

Randy Stephanson

Saskatchewan Telecommunications

Statement of Cash Flows

For the year ended December 31, (Thousands of dollars)	2004	2003 Restated (Note 3)
Cash provided by (used in):		
Operating activities		
Net income	**$84,166**	$108,264
Items not affecting cash (Note 11)	**160,496**	112,867
Other operating items (Note 12)	**40,125**	10,737
	284,787	231,868
Financing activities		
Repayment of Province of Saskatchewan debt	**(31,094)**	(1,910)
Dividends paid	**(123,294)**	(83,976)
Short-term borrowings (repayments)	**-**	(13,425)
	(154,388)	(99,311)
Investing activities		
Property, plant and equipment expenditures	**(115,498)**	(116,077)
Other assets	**1,094**	851
	(114,404)	(115,226)
Increase in cash	**15,995**	17,331
Cash and cash equivalents, beginning of year	**6,406**	(10,925)
Cash and cash equivalents, end of year	**$22,401**	$6,406
Comprised of:		
Short-term investments	**$30,789**	$13,751
Bank indebtedness	**(8,388)**	(7,345)
	$22,401	$6,406
Interest Paid	**$27,760**	$29,072

See Accompanying Notes

Notes to Financial Statements

Note 1 – The Corporation

Saskatchewan Telecommunications (the Corporation) markets and supplies a range of voice, data, internet, wireless, text, image and entertainment products, systems and services. The Corporation is a Saskatchewan Provincial Crown corporation operating under the authority of *The Saskatchewan Telecommunications Act* and, as such, the Corporation is not subject to Federal or Provincial income taxes in Canada.

The Canadian Radio-television and Telecommunications Commission (CRTC) regulates the Corporation under the *Telecommunications Act* (Canada).

By virtue of *The Crown Corporations Act, 1993*, the Corporation has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC). Accordingly, the financial results of the Corporation are included in the financial statements of CIC, a Provincial Crown corporation, through consolidation with Saskatchewan Telecommunications Holding Corporation (Holdco).

Note 2 – Summary of significant accounting policies

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

Cash and short-term investments

Cash and short-term investments include interest bearing investments with Holdco that are due on demand and are stated at cost which approximates market value.

Inventories

Materials, supplies and inventories are recorded at the lower of cost and net realizable value. Cost is determined using an average-cost basis.

Property, plant and equipment

Property, plant and equipment is recorded at cost including materials, services and direct labour.

Depreciation and amortization is computed on the straight-line basis using rates determined by a continuing program of engineering studies for each class of property in service.

Asset	Estimated useful life
Buildings	20 - 35 years
Plant and equipment	2 - 50 years
Office furniture, equipment and leaseholds	4 - 17 years

With respect to property, plant and equipment acquired and constructed or developed over time, the Corporation follows the policy of capitalizing related equipment, construction and installation costs as plant under construction. These costs are then depreciated and amortized on a basis consistent with the Corporation's depreciation and amortization policy from the date the asset is substantially completed and put into productive use.

Notes to Financial Statements

Note 2 – Summary of significant accounting policies, continued

Revenue recognition

Effective January 1, 2004, the Corporation adopted the recommendations included in The Canadian Institute of Chartered Accountants (CICA) Emerging Issues Committee Abstracts 141, 142 and 143 issued in December 2003 regarding revenue recognition and classification of certain revenues and expenses. These standards have been adopted on a prospective basis.

Revenues are recognized in the period the services are provided when there is clear proof that an arrangement exists, amounts are determinable and the ability to collect is reasonably assured. Revenues from local telecommunications, data, internet, entertainment and security services are recognized based on access to the Corporation's network and facilities at the rate plans in effect during the period the service is provided. Certain service connection charges along with corresponding direct costs are deferred and recognized over the average expected term of the customer relationship. Revenues from long distance and wireless airtime are recognized based on the usage or rate plans in the period service is provided. Revenues from equipment sales are recognized when the equipment is delivered to and accepted by the customer. Revenues for longer term contracts are recognized based on a percentage of completion. Payments received in advance are recorded as deferred revenue until the product or service is delivered.

Customer solutions may involve the delivery of multiple services and products that occur at different points and over different periods of time. The multiple services are separated into their respective accounting units and consideration is allocated among the accounting units. The relevant revenue recognition policies are applied to each accounting unit.

The CRTC has established a National Subsidy Fund to subsidize Local Exchange Carriers (LEC's) like the Corporation, that provide service to residential customers located in high cost service areas (HCSA's). The CRTC has set the rate per line and band for all LEC's. The Corporation recognizes the revenue on an annual basis by applying the rate to the number of residential network access lines served during the period in HCSA's.

Notes to Financial Statements

Note 2 – Summary of significant accounting policies, continued

Employee future benefits

The Corporation has a defined benefit pension plan (a), a defined contribution pension plan (b) and a service recognition defined benefit program (c).

a) Defined benefit pension plan
The Corporation accrues its obligations under employee benefit plans and the related costs, net of plan assets. The Corporation has adopted the following policies related to the defined benefit plan:

The cost of pension benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees.

Pension plan assets are valued at fair value, which is determined using current market values.

Expected return on plan assets is calculated based on a five year weighted average of actuarial gains and losses, expected returns on plan assets, and contributions and benefit payments made in the current year.

Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees who were active on the day of the amendment but not yet fully eligible to receive benefits (8.33 years). This represents the period that economic benefits from the amendments are expected to be realized.

The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the market related value of the plan assets is amortized over the average remaining service life of active employees of the plan. The remaining service life of active employees is calculated as a weighted average of 6.0 years.

When the restructuring of a benefit plan results in both a settlement and a curtailment of obligations, the curtailment is accounted for prior to the settlement.

b) Defined contribution pension plan
Defined contribution plan costs are recognized as employees render services during the year.

c) Service recognition defined benefit program
The Corporation also provides a defined benefit service recognition plan for its employees. The cost of the plan is determined using the projected benefit method prorated on service.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at the year-end exchange rates. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. Translation gains and losses on foreign currency denominated monetary items are taken into income in the current year.

Notes to Financial Statements

Note 2 – Summary of significant accounting policies, continued

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amounts of property, plant and equipment and underlying estimations of useful lives of depreciable assets and capitalization of labour and overhead, the carrying amounts of accounts receivable and underlying provision for bad debts and the carrying amounts of deferred pension costs and underlying actuarial assumptions. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods.

Recent changes to accounting standards and policies

Impairment of long-lived assets

Effective January 1, 2004 the Corporation adopted the recommendations in section 3063 of the CICA Handbook, *Impairment of Long-Lived Assets*. Long-lived assets, including property, plant and equipment, are amortized over their useful lives. The Corporation reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized on a long-lived asset to be held and used when its carrying value exceeds the total undiscounted cash flows expected from its use and eventual disposal. The amount of loss recorded is determined by deducting the asset's fair value (based on discounted cash flows from its use and disposition) from its carrying value. Prior to January 1, 2004, the amount of the loss was determined by deducting the asset's net recoverable amount, based on undiscounted net cash flows expected to be generated by the asset, from its carrying value.

Adopting this section had no impact on the Corporation's financial statements.

Asset retirement obligations

Effective January 1, 2004 the Corporation adopted the recommendations in section 3110 of the CICA Handbook, *Asset Retirement Obligations*. This section is effective for years beginning on or after January 1, 2004. The standard provides guidance on how to recognize and measure liabilities related to the legal obligations associated with the retirement of property, plant and equipment. Obligations are initially measured at fair value and are adjusted for any changes resulting from the passage of time and any changes to the timing or amount of the original estimate of undiscounted cash flows. The asset retirement cost is capitalized as part of the related asset and is amortized into earnings over the asset's useful life.

Adopting this section has not had a material effect on the Corporation's financial statements because no significant asset retirement obligations exist.

Notes to Financial Statements

Note 3 – Prior period adjustment

During 2004 it was discovered that property, plant and equipment had previously been overstated due to certain assets being retired prior to being fully amortized.

The correction was accounted for retroactively with restatement of all prior periods reported. The effect of the correction to the financial statements as at December 31, 2003 is outlined below as increase (decrease):

(Thousands of dollars)	2003
Statement of Operations	
Depreciation and amortization	$1,263
Income from operations	(1,263)
Net income	(1,263)
Statement of Retained Earnings	
Prior period adjustment	(790)
Statement of Financial Position	
Property, plant and equipment	(2,053)
Statement of Cash Flows	
Items not affecting cash – Depreciation and amortization	1,263

Note 4 – Restructuring charges

During 2004, $38,234,510 was recorded to restructuring charges. The charge relates to phase one of a proposed three phase voluntary early retirement program (ERP) with each phase occurring over a two year period. The ERP has been undertaken to reduce operating costs and manage the employee demographic profile in the context of a changing labour market. The first phase began in the fall of 2004 and will be completed during 2005. During 2004, 185 employees elected to receive a package that included a cash allowance and immediate pension benefits.

An additional charge of approximately $13 million is expected to be incurred in 2005. These costs are not eligible for recognition at December 31, 2004 and will be expensed as incurred.

The table below provides a summary of the costs recognized in 2004 and the liability recorded at December 31, 2004:

	(Thousands of dollars)
Restructuring charges	$38,235
Less:	
Cash payments	2,705
Special termination benefit costs (Note 14)	28,412
Balance in accounts payable and accrued liabilities	$7,118

Notes to Financial Statements

Note 5 – Interest and related costs

	2004	2003
		(Thousands of dollars)
Interest expense	$26,205	$28,423
Foreign currency translation gains	(1,728)	(22,797)
Other	(13)	(13)
	24,464	5,613
Less sinking fund earnings	1,813	2,476
	$22,651	$3,137

Note 6 – Short-term investments

The balance represents funds invested with Holdco at an average interest rate of 2.26% (2003 - 2.94%).

Note 7 – Property, plant and equipment

	Cost	Accumulated depreciation and amortization	Net book value	
			2004	2003 Restated (Note 3)
(Thousands of dollars)				
Buildings	$156,273	$78,579	$77,694	$77,367
Plant and equipment	2,029,278	1,467,695	561,583	581,720
Office furniture, equipment and leaseholds	122,158	59,992	62,166	63,422
Plant under construction	88,044	-	88,044	82,851
Materials and supplies	8,798	-	8,798	9,020
Land	4,208	-	4,208	4,164
	$2,408,759	$1,606,266	$802,493	$818,544

Depreciation and amortization for the year totalled $131,270,422 (2003 - $138,463,327).

Notes to Financial Statements

Note 8 – Other assets

	2004	2003
	(Thousands of dollars)	
Deferred pension costs (Note 14)	**$55,318**	$51,573
Competition implementation costs	**1,921**	3,015
Unamortized debt issue charges	**764**	751
Deferred expenses	**4,756**	-
Other	**4,639**	2,373
	$67,398	$57,712

Depreciation and amortization for the year totalled $374,845 (2003 - $687,373).

Note 9 – Long-term debt

	Years to Maturity	Weighted Average Interest Rate (%)	2004	2003
			(Thousands of dollars)	
Province of Saskatchewan				
Canadian dollar issues (a)	1 to 5	9.87	**$66,974**	$95,930
Canadian dollar issues	6 to 10	6.15	**60,000**	60,000
Canadian dollar issue (b)	16	10.08	**126,600**	-
Canadian dollar issues (c)	25	5.00	**35,000**	35,000
U.S. dollar issue (b)	-	9.38	**-**	129,650
			288,574	320,580
Less sinking funds (d)			**32,390**	30,004
Total Province of Saskatchewan debt			**256,184**	290,576
Other			**698**	991
Total long term debt			**256,882**	291,567
Less current portion of long-term debt			**2,272**	31,552
			$254,610	$260,015

(a) Long-term debt totalling $66,974,000 is subject to redemption at the option of the issuer on 30 days notice, as outlined in the terms and conditions.

(b) During the year the Corporation converted $100,000,000 U.S. dollar debt to $126,600,000 Canadian dollar debt. No gain or loss was recorded on the transaction.

Notes to Financial Statements

Note 9 – Long-term debt, continued

(c) Long-term debt totaling $35,000,000 contains a one-time redemption provision exercisable on March 5, 2006 whereby the investor may redeem the debt. The debenture pays interest at 5% to March 5, 2006 and 5.6% thereafter.

(d) Under conditions attached to a portion of the long-term debt, the Corporation is required to pay annually into sinking funds, administered by the Province of Saskatchewan, one percent of the debt outstanding.

Sinking fund installments and anticipated long-term debt repayments (net of sinking funds) due over the next five years are as follows:

	(Thousands of dollars)
2005	$2,272
2006	34,464
2007	15,463
2008	22,645
2009	1,866

Note 10 – Equity advance

The Corporation's equity financing is in the form of equity advances of $250,000,000 (2003 - $250,000,000) from CIC and $17,195,000 (2003 - $17,195,000) from Holdco.

Note 11 – Items not affecting cash

(Thousands of dollars)	2004	2003 Restated (Note 3)
Depreciation and amortization	**$131,645**	$139,149
Pension cost (income) - defined benefit plan	**6,404**	(549)
Special termination benefit costs (Note 14)	**28,412**	-
Foreign currency translation gains	**(1,728)**	(22,797)
Sinking fund earnings	**(1,813)**	(2,476)
Other	**(2,424)**	(460)
	$160,496	$112,867

Notes to Financial Statements

Note 12 – Other operating items

	2004	2003
		(Thousands of dollars)
Changes in non-cash working capital:		
Accounts receivable	$35,916	$8,223
Inventories	(2,490)	(409)
Prepaid expenses	1,078	2,677
Accounts payable and accrued liabilities	42,688	8,023
Accrued interest	(1,534)	(71)
Services billed in advance	1,106	(713)
Deferred revenue	6,346	-
Other assets	(4,756)	-
Contributions to defined benefit pension plan	(38,229)	(6,993)
	$40,125	$10,737

Note 13 – Financial instruments

Credit risk

The Corporation has a large and diverse customer base that minimizes the concentration of credit risk.

Currency exposure

The Corporation uses a combination of derivative financial instruments to manage foreign exchange risk exposures. The Corporation does not actively trade derivative financial instruments.

Fair value

Fair values approximate amounts at which financial instruments could be exchanged between willing parties based on current markets for instruments with similar characteristics such as risk, principal and remaining maturities. Fair values are estimated using present value and other valuation techniques which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates that reflect varying degrees of risk. Therefore, due to the use of judgment and future-orientated information, aggregate fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

Notes to Financial Statements

Note 13 – Financial instruments, continued

At year end, the carrying value of all financial instruments approximates fair value with the following exceptions:

(Thousands of dollars):

	2004		2003	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Equity in sinking funds	**$32,390**	**$32,684**	$30,004	$31,204
Long-term debt, Province of Saskatchewan	**$288,574**	**$378,239**	$320,580	$400,246

Note 14 – Employee future benefits

The Corporation has a defined benefit pension plan (a) , a defined contribution pension plan (b) and a service recognition defined benefit program (c). The defined benefit pension plan for certain employees has been closed to new membership since 1977. The Corporation also has employees who are members of the Public Employees Pension Plan, which is a defined contribution plan.

a) Defined benefit pension plan

The defined benefit pension plan is registered under *The Pension and Benefit Act, 1992*, Saskatchewan, the *Income Tax Act*, Canada and is regulated by the Saskatchewan Financial Services Commission – Pension Division. The Corporation is responsible for adequately funding the defined benefit pension plan. Contributions are determined by actuarial valuations. The contributions reflect actuarial assumptions about future investment returns, salary projections and future service benefits. A valuation is performed a least every 3 years in accordance with *The Pension and Benefit Act, 1992*, Saskatchewan, to determine the actuarial present value of the accrued pension benefit. The latest valuation is dated December 31, 2003 and was performed as of August 31, 2004.

The defined benefit pension plan provides a full pension at age 65, at age 60 with at least 20 years of service or upon completion of 35 years of service. The pension is calculated to be 2% times the average of the highest three years of pensionable earnings times the number of years of service up to a maximum of 35 years of service. A reduced pension may be opted for if certain age and years of service criteria are met. Pensions are subject to annual indexing with the Consumer Price Index up to a maximum of 2% per year.

For employees that retire before the age of 65 but meet other age plus service requirement either a reduced or unreduced pension may be payable. Pensions are subject to annual indexing with the Consumer Price Index up to a maximum of 2% per year.

The introduction of the ERP resulted in a curtailment to the defined benefit pension plan. The impact of the curtailment was to reduce the accrued benefit obligation by $3,080,952.

Notes to Financial Statements

Note 14 – Employee benefit plans, continued

Key assumptions used as inputs to the actuarial calculations are:

	2004	2003
Discount rate	**5.90%**	6.20%
Expected return on plan assets	**7.00%**	7.25%
Inflation rate	**1.90%**	2.20%
Expected salary increase	**1.90%**	2.20%
Post-retirement index (not to exceed 2%)	**100% of CPI**	100% of CPI

Pension plan assets

The table below shows the allocation of pension plan assets at December 31, 2004 and 2003.

Asset category	2004	2003
Equity securities	**54.87%**	55.15%
Bonds	**30.90%**	29.87%
Short-term investments (treasury bills, notes and commercial paper)	**8.64%**	9.08%
Real estate	**5.59%**	5.80%
Debt securities	**- %**	0.10%
	100.00%	100.00%

The weighted average expected long-term rate of return for all asset categories is 7%.

The table below shows the components of the defined pension plan (cost) income:

	2004	2003
		(Thousands of dollars)
Current service cost – defined benefit plan	**$(9,642)**	$(7,260)
Interest cost	**(50,745)**	(49,230)
Expected return on pension plan assets	**54,929**	53,825
Special termination benefit costs	**(28,412)**	-
Amortization of net transitional asset	**11,651**	11,651
Amortization of past service costs	**(4,303)**	(4,105)
Amortization of actuarial loss	**(8,294)**	(4,332)
Net pension (cost) income	**$(34,816)**	$549

Notes to Financial Statements

Note 14 – Employee benefit plans, continued

The accrued benefit obligation, plan assets and deferred pension cost tables below show the change in the defined benefit pension plan and the change in the fair value of the plan's assets during the year and the status of the plan as at December 31, 2004.

Accrued benefit obligation	**2004**	2003 (Thousands of dollars)
Accrued benefit obligation, beginning of year	**$822,203**	$805,335
Current service cost	**12,255**	9,825
Curtailment gain	**(3,081)**	-
Interest cost	**50,746**	49,230
Benefits paid	**(42,413)**	(42,187)
Impact of changes due to actuary study	**3,683**	-
Impact of change in discount rate	**17,935**	-
Special termination benefit costs	**28,412**	-
Accrued benefit obligation, end of year	**$889,740**	$822,203

Plan assets	**2004**	2003 (Thousands of dollars)
Fair value of plan assets, beginning of year	**$724,793**	$687,127
Actual return on plan assets	**82,756**	70,295
Employer contributions	**38,552**	6,993
Employee contributions	**2,613**	2,565
Benefits paid	**(42,413)**	(42,187)
Fair value of plan assets, end of year	**$806,301**	$724,793

Deferred pension costs	**2004**	2003 (Thousands of dollars)
Funded status – surplus (deficit)	**$(83,439)**	$(97,410)
Unamortized transitional asset	**(50,448)**	(62,099)
Unamortized past service costs	**17,581**	21,884
Unamortized net actuarial losses	**171,624**	189,198
Deferred pension costs	**$55,318**	$51,573

Notes to Financial Statements

Note 14 – Employee benefit plans, continued

b) Defined contribution pension plan

The defined contribution pension plan requires the Corporation to contribute 6% of employees' pensionable earnings and employees to contribute a minimum of 4% of pensionable earnings. The total cost for the defined contribution plan is equal to the Corporation's required contribution. The Corporation's 2004 pension cost and employer contributions for the Public Employees Pension Plan are $11,230,221 (2003 - $11,126,115).

c) Service recognition defined benefit program

The service recognition defined benefit program provides a retiring allowance of two days salary per year of service which is payable on retirement. Key assumptions used as inputs to the actuarial calculations are:

	2004	2003
Discount rate	**6.80%**	6.80%
Expected salary increase	**2.80%**	2.80%
Estimated average remaining employee service life	**15.7 years**	15.7 years

Current year benefit cost	**2004**	2003
		(Thousands of dollars)
Defined benefit service cost	**$2,912**	$2,832

Accrued benefit obligation	**2004**	2003
		(Thousands of dollars)
Accrued benefit liability	**$13,771**	$11,965

Note 15 – Related party transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to CIC by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Notes to Financial Statements

Note 15 – Related party transactions, continued

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Other transactions in the normal course of operations are recorded at the exchange amount which is the amount of consideration established and agreed to by the related parties. These transactions and amounts outstanding at year-end are as follows:

	2004	2003
		(Thousands of dollars)
Operating revenues	**$68,993**	$62,808
Other income	**90**	-
Operating expenses	**62,605**	58,839
Accounts receivable	**10,812**	14,589
Accounts payable	**32,494**	5,986
Property, plant and equipment expenditures	**656**	289
Other assets	**3,074**	374

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

In November 2004, the Corporation entered into an agreement with CIC to provide administrative services related to application of the Lowest Cost Utility Program rebate to certain of the Corporation's customers on behalf of CIC. The Corporation received a cash payment of $50,942,902 which was applied to customer accounts during December in accordance with the agreement.

A director of the Corporation also serves as a director of a corporation from which the Corporation purchased $1,496,698 (2003 - $2,000) of property plant and equipment and items recorded in operating expense of $330,969 (2003 – $ -).

Other amounts and transactions due to (from) related parties and the terms of settlement are described separately in these financial statements and notes thereto.

Note 16 – Commitments and contingencies

The future minimum payments under operating leases and contractual obligations for services in each of the next five years are as follows:

	(Thousands of dollars)
2005	$22,695
2006	22,701
2007	13,992
2008	13,285
2009	12,542

The above payments include $18,960,000 for leases with related parties.

Notes to Financial Statements

Note 16 – Commitments and contingencies, continued

On August 9, 2004, a proceeding under the *Class Actions Act* (Saskatchewan) was brought against several Canadian wireless and cellular service providers, including the Corporation. The proceeding involves allegations by wireless customers of breach of contract, misrepresentation, negligence, collusion, and breach of statutory obligations concerning system administration fees. The plaintiffs seek unquantified damages from the defendant wireless communications service providers. The Corporation believes that it has strong defenses to the allegations. It is not currently known whether the proceeding will be certified as a class action and the outcome of this matter is not determinable at this time.

In the normal course of operations, the Corporation becomes involved in various claims and litigation. While the final outcome with respect to claims and litigation pending at December 31, 2004 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Corporation's financial position or results of operations.

Note 17 – Subsequent event

On February 3, 2005, the CRTC released Telecom Decision CRTC 2005-6, *Competitor Digital Network Services*, which finalized the terms and conditions under which the Corporation is to provide digital network services to other telecommunications carriers. The CRTC determined that the Corporation's interim Competitor Digital Network Access rates are to be replaced, retroactively to June 1, 2002, by rates equal to the Corporation's retail digital network access rates.

As a result of the current decision, the Corporation will record total revenues of $11.3 million in 2005 related to services previously provided from June 1, 2002 through December 31, 2004. This includes $7.9 million that was recorded in accounts payable at December 31, 2004 related to the interim rates set by the CRTC in 2002.

Note 18 – Comparative figures

Certain of the 2003 figures have been reclassified to conform to current year's presentation.